THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

PROFESSIONAL EXAMINATION

PTE I: FINANCIAL REPORTING

EXAM NO………………………..…………………..…. **TIME: 3 HOURS.**

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS

SHOW ALL WORKINGS.

1. Shadow Plc. prepares its financial statements to September 30, each year.

On October 1, 2015 Shadow Plc. purchased 75% of the issued share capital of Judo Plc. by issuing three (3) ordinary shares in Shadow Plc. for every four (4) shares in Judo Plc. The market value of Shadow Plc's shares at October 1, 2015 was ₦4.00 per share. At the date of acquisition, Judo Plc. had ₦76million ordinary shares at ₦1 each and retained earnings of ₦68.67million.

On April 1, 2016, Shadow Plc. acquired 30% of the shares of Ease Ltd. for ₦3.50 each. The retained earnings of Ease Ltd. at the date of acquisition were ₦26million. Ease Ltd. issued share capital at April 1, 2016 was 30million ordinary shares at ₦1.00 each.

Shadow Plc. has the right to appoint two of the five directors of Ease Ltd. The remaining shares in Ease Ltd. are owned principally by three other investors, each of which has one director on the board of Ease Ltd.

The draft statements of comprehensive income for the three companies for the year ended September 30, 2019 are as follows:

	Shadow Plc	**Judo Plc**	**Ease Ltd.**
	₦'000	**₦'000**	**₦'000**
Revenue	249,390	138,866	45,780
Cost of sales	(140,760)	(86,982)	(21,364)
Gross profit	108,630	51,884	24,416
Other income	23,715	13,734	1,526
Operating expenses	(48,960)	(16,023)	(10,682)
Operating profit	83,385	49,595	15,260
Finance cost	(13,770)	(10,682)	(4,578)
Profit before tax	69,615	38,913	10,862
Income tax expense	(16,065)	(13,734)	(2,289)
Profit for the year	53,550	25,179	8,393

The following information is relevant:

i. The fair value of the net assets of Judo Plc. at the date of acquisition was equal to their carrying amount with the exception of land. The land had a fair value of ₦7.63million above its carrying amount and this has not changed since the date of acquisition.

Shadow Plc's policy is to value non-controlling interests at fair value at the date of acquisition. At the date of acquisition, the goodwill attributable to non-controlling interest was ₦1.526million.

ii. At September 30, 2019, the fair value of Judo Plc's plant and machinery was ₦4.578million in excess of its carrying amount. The remaining useful life of these assets is four years and Judo Plc. has not reflected this fair value in its financial statements.

iii. Sales by Shadow Plc. to Judo Plc. during the year ended September 30, 2019 amounted to ₦24.416million. The goods were sold at cost plus 25% mark-up. Judo Plc year end inventories include ₦9.156million in relation to the goods purchased from Shadow Plc.

iv. Included in Judo Plc.'s operating expenses is an amount of ₦3.815 million in respect of management charges invoiced and included in revenue by Shadow Plc.

v. During the reporting year ended September 30, 2019 Shadow, Judo and Ease paid dividends of ₦4.284million, ₦2.014million and ₦671,000.00 respectively. The dividends received by Shadow from its investment in Judo and Ease have been included in other income in the above draft statement of comprehensive income.

vi. The retained earnings of Ease Ltd as at September 30, 2019 were ₦41.5million.

vii. There had been no impairment losses on goodwill acquired in Judo Plc. and Ease Ltd. since the date of acquisition.

Required:

(a) Calculate the goodwill arising on the acquisition of Judo Plc. (7 Marks)

(b) Prepare the consolidated statement of comprehensive income for Shadow Plc. Group for the year ended September 30, 2019. (All figures should be to the nearest ₦'000). (24 Marks)

(c) Explain with reasons, how the investment in Ease Ltd will be treated in the consolidated statement of financial position of Shadow Plc. Group and then, calculate the carrying amount of investment in Ease Ltd. as at September 30, 2019. (9 Marks)

(Total 40 Marks)

SOLUTION TO QUESTION 1

(a) Calculation of Goodwill Acquired in Judo Plc

	₦'000	₦'000
Consideration 76m x 75% x ¾ x ₦4		171,000
Less: Ordinary share capital	76,000	
Retained earnings	68,670	
Fair value adjustments	7,630	
	152,300 x 75%	

		(114,225)
Goodwill attributable to parent		56,775
Goodwill attributable NCI		1,526
Full goodwill		58,301

(b) Shadow Plc Group consolidated statement of comprehensive income for the year ended September 30, 2019.

	₦'000
Revenue (w1)	360,000
Cost of sales (w2)	(205,157)
Gross profit	154,868
Other income (w7)	35,737
Operating expenses (w3)	(61,168)
Operating profit	129,437
Income from associate	2,518
Interest expense and similar charges	(24,452)
Profit before tax	107,503
Income tax expense	(29,799)
Profit for the period	77,704
Other comprehensive income:	
Revaluation gain	4,528
Total comprehensive income	82,232
Profit for the year attribute to equity owners of the parent	71,409
Non-controlling interest (w5)	6,295
	77,704
Total comprehensive income attribute to:	
Equity owners of the parent	74,792
Non-controlling interest (w6)	7,440
	82,232
Workings:	**₦'000**
W1 Revenue:	
Shadow Plc	249,390
Judo Plc	138,866
Less management charges	(3,815)
Intra-group sales	(24,416)
	360,025
W2 Cost of sales:	
Shadow Plc	140,760
Judo Plc	86,982
Intra-group sales	(24,416)
Unrealised profit on inventories (₦9.156m x 25/125)	1,831
	205,157
W3 Operating expenses:	
Shadow Plc	48,960
Judo Plc	16,023
Management charges	(3,815)

	61,168
W4 Income from associate: Ease Ltd	
Profit after tax ₦8.393m x 30%	2,518
W5 Non-controlling interest in Shadow Plc:	
₦25.179m x 25%	6,295
W6 Non-controlling interest profit W5	6,295
NCI in subsidiary's OCI = (4.578m x 25%)	1,145
	7,440
W7 Other income:	
As per draft – Shadow Plc	23,715
Less: Intra-group dividends from:	
Judo ₦2.014m x 75%	(1,511)
Ease ₦671,000 x 30%	(201)
	22,003
Judo's other income	13,734
	35,737

(c) Shadow Plc acquired 30% of shares of Ease Ltd. An investment of 30% in another entity would normally indicate that the investor has a significant influence, but not control, of the entity's activities.

The fact that Shadow Plc has the power to appoint two of the directors to the board tends to support the conclusion that it can exercise significant influence over Ease Ltd, Moreover, the fact that three other investors hold the remainder of the shares made it unlikely that another investor in Ease Ltd would be able control the entity's activities.

Shadow Plc will account for Ease Ltd as an associate using the equity method under IAS 28.

Carrying amount of investment in Ease Ltd as at September 30, 2019.

	₦'000
Cost at acquisition date 30% x 30million x ₦3.50	31,500
Share of post-acquisition profit ₦(41.5m – 26m) x 30%	4,650
Investment in Associate	36,150

EXAMINER'S REPORT

Part (a) of the question tests candidates' knowledge of computation of goodwill arising on acquisition of subsidiary. Part (b) of the question tests the preparation of consolidated statement of comprehensive income, while part (c) of the question tests the treatment of investment in an associate and computation of carrying amount of the investment in associate.

All the candidates attempted the question and their performance was poor.

Commonest pitfalls of the candidates was their inability to compute goodwill, while others could not correctly prepare the consolidated statement of comprehensive income.

Candidates are advised to pay more attention to preparation of group accounts while they should also make use of the Institute's study text for better performance in future examinations.

2. (a) The IASB Conceptual Framework for Financial Reporting states that, “an entity’s choice of measurement basis and capital measurement concept determine the accounting model to be used in the preparation of financial statements”.

Required:
Explain the capital maintenance concepts identified in the Conceptual Framework. (6 Marks)

(b) The two fundamental characteristics identified in the IASB’s Conceptual Framework for Financial Reporting are relevance and faithful representation. In order for financial transactions to be presented faithfully in the financial statements, the principle of substance over form should be applied.

Required:
(i) Why is it considered important that the economic substance of a transaction be reflected in the financial statements rather than its legal form? (5 Marks)

(ii) Describe in general terms, two features of a transaction that suggest that the economic substance may differ from its legal form. (4 Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 2

(a) Two concepts of capital are discussed under the standard; the financial concept of the capital and the physical concept of the capital.

Under the financial concept of capital maintenance, profit is earned if the net assets at the end of the period exceeds the net assets at the beginning of the period, excluding any distribution to and contributions from owners during the period. Another form of financial concept of financial maintenance concept is the real financial capital maintenance in which constant purchasing power is taken into consideration.

Under the physical capital maintenance concept, profit is earned if the physical productive capacity of the entity or the resources to achieve that capacity at the end of the period exceeds the physical productive capacity at the beginning of the period.

Neither the IASB conceptual framework nor accounting standards require the use of the physical concept of capital maintenance. Almost all entities use the financial maintenance concept but both concepts can provide useful information.

(b) (i) Substance over form is the concept that the financial statements and accompanying disclosures of a business should reflect the underlying realities of accounting transactions rather their legal form. Usually the legal form of a transaction and its economic reality are the same but in some cases the two may differ and give different results if a transaction is structured in such a way that the economic reality differs from the legal form, the accounting must reflect the economic substance. Substance over form ensures that the true intent of a transaction is not hidden. Substance over form may also arise because a transaction is complex which makes it difficult to ascertain the substance of the transaction. It is believed that financial statements prepared in using the principle- based IFRS reflects the substance of transactions.

(ii) Features indicating that the substance of a transaction may differ from its legal form.

- Transactions may be structured to manipulate the reported results, by reporting assets as expenses or liabilities as revenue.
- Unusual term in contract of sales of good and services that might affect the assessment of the timing of revenue and costs.
- Arrangements that serves to divert risk and returns from where it might otherwise be.
- If two or more transactions are executed together and the combined effect differs from each individual effects e.g. in a sale and lease back transaction.
- Business arrangements entered into that give disproportionate advantage to one party over another.

EXAMINER'S REPORT

Part (a) of the question tests the concepts of capital maintenance as identified in the conceptual framework while part (b) tests candidates' practical application of the principles of substance over form as it relate to financial transactions.

Few of the candidates attempted the question and their performance was below average.

The commonest pitfall was the candidates' inability to apply the substance over form principles to relevant financial transactions.

Candidates are advised to get familiar with all aspects of the Institute's syllabus for better performance in future examinations.

3. Rejuvenator Plc. owns a building which it has been using as head office in Abuja. In order to reduce cost, the company's management on December 31, 2019 decided to move the head office to the branch office and has now let out its head office building.

The head office building had an original cost on July 1, 2010 of ₦375.5million and was being depreciated over 50 years. As at December 31, 2019, an independent valuer assessed the fair value of the head office to be ₦525.5million.

The entity's policy is to charge depreciation from the date of acquisition to the date of disposal.

Required:

(a) Explain the meaning of 'Investment Property' according to IAS 40 and explain why its accounting treatment is different from that of owner-occupied property. (4 Marks)

(b) Discuss the key differences between the accounting treatments of investment properties under IAS 40 and owner-occupied properties under IAS 16. (5 Marks)

(c) With relevant figures, explain how Rejuvenators Plc's building should be accounted for in the financial statements during the reporting period ended December 31, 2019. (6 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 3

(a) An investment property is land or buildings (or part thereof) held by the owner to generate rental income or for capital appreciation (or both) rather than for production or administrative purpose. It may also include property held under a lease if used for the same purpose as other investment properties.

The accounting treatment for investment property is different from owner-occupied property as a result of the use the property is put to, where a property e.g. building is held for rental income generation or capital appreciation or both, it is treated as investment property. Where the same building is used for administrative purposes largely for the production of goods and services, it is treated as owner-occupied that are largely independent of other assets held by an entity.

(b) The revaluation model and fair value model apply to both properties, which is usually a market-based assessment.

Any gain (or loss) over a previous valuation is taken to profit or loss if it relates to an investment property where as for an owner-occupied property, any gain is taken to revaluation reserve through other comprehensive income, the results are accumulated as a component of equity in the statement of changes in equity.

A loss on revaluation of an owner-occupied property is charged to profit or loss unless it has a previous surplus in the revaluation reserve, which can be used to offset the loss.

A further difference is that owner-occupied property are usually depreciated after revaluation, whereas investment properties are not depreciated but are revalued at regular intervals.

(c) According to IAS 40, when an owner-occupied property is being transferred to investment property, IAS 16 would apply up to the date of transfer. The property revalued at December 31, 2019 at ₦525.5m would be deemed to be the fair value of the investment property at the transfer date. Meanwhile, the revaluation would be credited to the revaluation gain of ₦221.345m and presented through other comprehensive income for the year ended December 31, 2019. The revaluation reserve is presented as a component of equity in the statement of financial position.

Working:	**₦'000**
July 1, 2010 cost of property	375,500
Accumulated depreciation 1/7/2010 – 31/12/2019 (9.5/50 x ₦375.5)	(71,345)
Carrying amount at 31/12/2019	304,155
Fair value at 31/12/2019	525,500
Revaluation surplus	221,345

EXAMINER'S REPORT

The question tests candidates understanding of IAS 40 - Investment Property and IAS 16 – Property Plant and Equipment and how to account for each types of properties in the financial statement.
Few candidates attempted the questions and their performance was below average.
The commonest pitfall of the candidates was their inability to differentiate between investment property and owner-occupied properties.
Candidates are advised to read and understand all accounting standards in the syllabus and their practical applications for better performance in future examinations.

4. (a) Between the end of an entity's reporting period and when the financial statements are approved by the directors of an entity, there are two types of events according to IAS 10, Events after the Reporting Period.

Required:

(i) State and explain these events; and (4 Marks)

(ii) State how they are treated in the financial statements. (4 Marks)

(b) Company A is indebted to Company B to the tune of ₦50million. The reporting date of Company B is June 30.

On July 12, 2019, Company B received a letter from a liquidator advising it that Company A has gone into liquidation. The letter revealed that Company A ceased operations a month ago and that Company B is only likely to receive a dividend of 60 kobo for every naira owed by Company A. The liquidator paid the amount to Company B on September 3, 2019.

It is the normal practice of Company B's board to approve the audited financial statements three months after the reporting date.

Required:

Explain how the above transactions should be treated in the financial statements of Company B and the disclosures that are required to be made for the year ended September 30, 2019. (7 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 4

(a) (i) Events after the reporting period are those events favourable and unfavorable that occur between the end of the reporting period and the date when the financial statements are authorised for issue. There are two types; adjusting events and non-adjusting events.

Adjusting events are events that provide evidence of the condition that existed at the end of the reporting period while non-adjusting events are those that indicate conditions that arose after the reporting period.

(ii) Adjusting events require adjustments in the financial statements for the items affected. In addition, updated disclosure is made with respect to the affected items. Updated disclosure is still made even when the amount of the item concerned is not affected.
Non-adjusting events do not require adjustment in the financial statements. However, the nature of the event and its financial effect must be disclosed in the notes if it is material.

(b) The debt owed by the customer provides evidence of the condition that existed at the reporting date and the customer's inability to pay did also exist at that date, (the customer has been insolvent before the year-end).

Hence it is an adjusting event, since 60% has been recovered, therefore only ₦20m (₦50m – ₦30m) would be impaired.

The disclosure required will be to update the following:

(i) The additional impairment of ₦20,000,000 on Company B's trade receivables allowance account and credit losses presented in the notes to the financial statements,

(ii) The explanation for the changes in loss allowance and reasons for the changes.

EXAMINER'S REPORT

The question tests candidates understanding and the treatment of IAS 10 – Events after the reporting period, and transaction disclosures that are required in the financial statements.

Majority of the candidates attempted the questions and their performance was average.

The commonest pitfall of the candidates was their inability to understand the treatment of transactions and disclosure requirements as required by IAS 10.

Candidates are advised to ensure that they understand the provisions of all relevant accounting standards and their disclosure requirements for better performance in future examinations.

5. (a) Earnings per share (EPS) is generally regarded as a key accounting ratio for use by investors. However, like any other accounting ratio, it has its limitations.

Required:

Explain the importance of EPS and state three (3) of its limitations. (8 Marks)

(b) Pronto Plc. has 100million ordinary shares in issue throughout the year ended December 31, 2019. The profit for the year was ₦240million.

The entity has two convertible financial instruments in issue:

(i) ₦50million 10% loan notes, each ₦100.00 of stock having the right to convert into 200 ordinary shares.

(ii) 40million convertible ₦1.00 12½% preference shares. Each preference share is convertible to 2 ordinary shares.

The income tax rate is 30%.

Required:

Calculate the basic and diluted EPS for Pronto Plc. for the year ended December 31, 2019. (7 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 5

(a) Earning per share (EPS) is one of the component part of the price earning (P/E) ratio. P/E ratio is used by investors to help them identify the relative risks of an investment. A relatively high P/E ratio usually suggests that the shares are regarded as a safe investment while lower P/E ratio suggests risk and volatility. EPS also measures the potential returns to equity holders in form of dividends and bonus issue.

It can be used to compare and evaluate the EPS of the same entity in different years, that is to evaluate trends in EPS, that of other entities or an industry's average.

The principal weakness of EPS include the following:

(i) EPS is based on accounting figures and can only be as well reliable as these figures;

(ii) Due to the use of historical figures for its calculations, it is of limited use for predictive purpose;

(iii) EPS may not be comparable among entities because number of shares issued is rarely comparable between them;

(iv) Financial statements are prone to manipulation by management, through window dressing; and

(v) Entities often use different accounting bases to treat transactions, hence entities EPS figures may not be comparable.

(b) (i) Calculation of EPS – Basic

Profit before tax	₦240m
Weighed average number of shares	100m
Basic EPS = 240/100	₦2.40/share

(ii) Calculation of diluted EPS

Profit (W1)	₦248.5m
Weighted average number of shares (W2)	280m
Diluted EPS 248.5/280	88.75kobo

Workings:

W1 Calculation of profit for diluted EPS

	₦'m	₦'m
Profit for the period		240
Savings on 10% loan notes (10% x 50m)	5	
Tax as savings (30% x ₦5m)	(1.5)	3.5
Savings on preference dividend (12½% x 40m)		5.0
Profit for diluted EPS		248.5

W2 Calculation of number of shares for diluted EPS.

	Million
Share for basic EPS	100
Conversion of loan notes (200/100 x 50)	100
Conversion of preference share (40 x 2)	80
	280

EXAMINER'S REPORT

The question tests the importance of earning per share (EPS), its limitations and computation of basic and diluted earnings per share.

Majority of the candidates attempted the question and their performance was below average.

The commonest pitfall was that majority of the candidates did not clearly demonstrate understanding of the importance and limitations of EPS, while others could not correctly calculate basic and diluted earnings per share.

Candidates are advised to pay more attention to computation and interpretation of ratio analysis for better performance in future examinations.

6. Youandi Plc. owned a piece of land which it acquired on March 1, 2018 at a cost of ₦288million.

During the year ended January 31, 2020 the company constructed a new factory on the land. The construction was financed from the pool of existing borrowings. Construction began on May 1, 2019 and was completed on October 31, 2019 at a cost of ₦432million. The factory was available for use from that day although production did not start until November 2019. The useful life of the factory has been estimated to be 50 years.

Throughout the year, the company's average borrowings were as follows:

	Amount	**Interest Rate**
	₦'000	**%**
Bank Overdraft	160,000	9.75
Bank Loan	280,000	10.0
Bonds	400,000	8.0

Required:

(a) Outline the core provisions of IAS 23, Borrowing Costs. (7 Marks)

(b) Explain the accounting requirements of the issues in Youandi Plc., with relevant calculations for the year ended January 31, 2020 and the carrying amount of the factory as at January 31, 2020. (8 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 6

(a) According to IAS 23 borrowing cost may be capitalised during the acquisition, construction or production of a qualifying asset. A qualifying asset is any asset which takes a substantial period of time to get ready for its intended use or sale. Borrowing costs include fees, transaction costs and amortisation of discount or premium relating borrowing costs. Directly attributable costs may be capitalised if incurred during the capitalisation period on qualifying assets.

The capitalisations commence when the borrowing costs have been incurred, expenditure on the asset has been incurred and construction activities have commenced.

The capitalisation of borrowing costs is suspended where there is an extended period of delay in the construction work.

The capitalisation ceases when the asset is substantially ready for its intended use or sale.
The borrowing costs of funds borrowed specifically to obtain qualifying asset is the actual borrowing cost incurred less investment income on temporary investment from those borrowings.

When an entity uses general borrowing to obtain qualifying asset, the capitalisations rate is the weighted average of the borrowing costs of the entity.

(b) The borrowing cost relating to the construction of the building is qualified for capitalisation. The capitalisation rate is the weighted average cost of the borrowed funds. The borrowing costs eligible for capitalisation is that incurred May 1, 2019 to October 31, 2019 when the construction took place.

The asset is ready for use on October 31, 2019 hence depreciations would be calculated from that date.

The following calculations are relevant:
Weighted average cost of borrowed funds.

	Amount	Interest rate	Total
	₦'000		₦'000
Bank overdraft	160,000	9.75%	15,600
Bank loan	280,000	10%	28,000
Bonds	400,000	8%	32,000
	840,000		75,600

Capitalisation rate $\frac{75,600}{840,000} \times \frac{100\%}{1} = 9\%$

Cost of asset	₦'000	₦'000
Land		288,000
Building	432,000	
Borrowing cost (9% x 432m x 6/12)	19,440	451,440
		739,440
Depreciation (3/12 x 451.4m x 1/50)		(2,257)
Carrying amount		737,183

EXAMINER'S REPORT

The question tests the provisions of IAS 23 – Borrowing costs, its accounting treatment and calculations of interest on the amount of borrowed costs.

Few candidates attempted the questions and their performance was below average.

The commonest pitfall was their inability to demonstrate clear understanding of the provisions of IAS 23.

Candidates are advised to pay more attention to the provisions of all accounting standards in the syllabus for better performance in future examinations.

7. The financial statements of Jackitup Plc are provided as follows:

Statement of profit or loss for the year ended October 31, 2019

	₦'m
Revenue	5,340
Cost of goods sold	(2,790)
Gross profit	2,550
Other operating expenses	(1,338)
Operating profit	1,212
Interest expense	(72)
Profit before tax	1,140
Income tax expense	(390)
Profit for the year	750

Statement of financial position as at October 31

	2019 ₦'m	2018 ₦'m
Assets		
Non-current Assets:		
Property, plant and equipment	2,664	2,052
Current Assets:		
Inventories	393	21
Trade receivables	432	192
Cash and cash equivalents	324	222
	1,149	435
Total assets	3,813	2,487
Equity and Liabilities		
Equity:		
Ordinary share capital of ₦1.00 each	1,000	360
Share premium	320	--
Retained earnings	1,236	816
Total equity	2,556	1,176
Non-current Liabilities		
Loan notes	840	900
Current Liabilities		
Trade payables	138	240
Taxation	174	111
Interest payables	105	60
Total current liabilities	417	411
Total equity and liabilities	3,813	2,487

Additional information:

i. Operating expenses include depreciation charge of ₦198million and loss on sale of equipment of ₦12million.

ii. Plant and equipment with a cost of ₦396million and a carrying amount of ₦366million was sold for ₦354million.

iii. The loan notes were redeemed on their face values for cash.

iv. Ordinary shares were issued at a premium of ₦0.50 for cash.

v. Cash dividend of ₦330million was paid during the year.

Required:
Prepare the statement of cash flows for the year ended October 31, 2019 for Jackitup Plc. using the indirect method. (15 Marks)

SOLUTION TO QUESTION 7

Jackitup Plc

Statement of cash flows for the year ended October 31, 2019

Cash flow operating activities:	₦'m	₦'m
Profit before tax		1,140
Adjusts for items not involving cash movement		
Loss on sale of equipment		12
Depreciation charge		198
Interest expense		72
		1,422
Working capital changes:		
Increase in inventories	(372)	
Increase in receivables	(240)	
Decrease in payable	(102)	
		(714)
Cash generated from operating activities		**708**
Tax paid (w1)		(327)
Interest paid (w2)		(27)
Net cash generated from operating activities		354
Cash flows from investing activities:		
Cash received from sale of PPE	354	
Purchases of PPE (W3)	(1,176)	
Net cash used in investing activities		**(822)**
Cash flows from financing activities:		
Cash raised from issue of shares	960	
Redemption of loan notes	(60)	
Dividends paid (W5)	(330)	
Net cash generated from financing activities		**570**
Cash and cash equivalent for the year		102
Cash and cash equivalent b/f 1/11/2018		222
Cash and cash equivalent c/f 31/10/2019		**324**

Working:

W1	Taxation:	₦'m
	Opening balance	111
	Income tax expense	390
		501
	Tax paid (balancing)	(327)
	Closing balance	174
W2	Interest:	
	Opening balance	60
	Charged for the year	72
		132
	Paid (balancing)	(27)
	Closing balance	105
W3	Property, plant & equipment:	
	Opening balance	2,052
	Addition during the year (balancing)	1,176
	Disposal	(366)
	Depreciation charged	(198)
	Balance C/d	2,664

W4	Cash from issue of shares	
	Balance at the year ended	1,000
	Share premium at the year end	320
		1,320
	Balance at the beginning of the year	(360)
	Cash raised	960
W5	Dividend paid	
	Retained profits b/f	816
	Profit for the year	750
		1,566
	Dividend paid (balancing)	(330)
	Closing balance	1,236

EXAMINER'S REPORT

The question tests the preparation of the statements of cash flows using indirect method.

Majority of the candidates attempted the question and performance was below average.

The commonest pitfall was the candidates' inability to correctly prepare statements of cash flows using indirect method.

Candidates are advised to pay more attention to this area of the syllabus for better performance in future examinations of the Institute.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

PROFESSIONAL EXAMINATION

PTE I: INCOME TAXATION

EXAM NO…………………….…………………………..…. **TIME: 3 HOURS.**

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS

SHOW ALL WORKINGS.

1. (a) Your firm, Abegunde & Co. (Chartered Tax Practitioners) is the tax consultant of Abdel Nigeria Limited. You client is proposing to bring in a foreign investor to the tune of 30% of the company's issued capital.

Required:
Explain briefly the followings in order to enlighten your client.

(i) The effect(s) of the planned proposal of their company to accept 30% foreign equity capital with particular reference to:

- Minimum tax provision. (2 Marks)
- Certificate of capital importation. (4 Marks)

(b) The management of Abdel Nigeria Limited has asked you to enlighten them on withholding tax under the Nigeria tax laws.

Required:
Explain the following in respect of withholding tax provisions to enlighten the management:

(i) Withholding tax. (1 Mark)

(ii) Withholding tax credit (2 Marks)

(iii) Three (3) withholding tax not payable to the Federal Government. (3 Marks)

(c) You are the Audit Senior, Tax unit of ABC Professional Services. The internal memo below is from your boss who has asked you to attend to the issues raised in the memo urgently.

<u>INTERNAL MEMO</u>

Date: November 29, 2019
To: Audit Senior – Tax
From: Head, Tax Unit
Subject: <u>XYZ Ceramic Manufacturing [TIN:158365-001] Final Decision @ Tax Reconciliation meeting for 2013 and 2014 Accounting Years.</u>

This is to inform you that the contentious issues for the accounting year ended December 31, 2013 to 2014 have been finally resolved at the last reconciliation meeting held with the Federal Inland Revenue Service (FIRS).

With this resolution, we expect you to attend to the following soonest:

Re-compute in a columnar form and standard format used in tax filing for the relevant tax year's additional:

(i) Company income tax (CIT) liability due. (10 Marks)

(ii) Tertiary education tax liability (TET) due. (5 Marks)

All relevant information and data needed are as provided in the attachment.

Attachment

Relevant information and data as agreed with tax authority

	2014	2015
Tax year	**2014**	**2015**
Accounting year	**1/1/2013 – 31/12/2013**	**1/1/2014 – 31/12/2014**
	₦	₦
1. Adjusted Profit/(loss)per audited account	10,190,855	(1,617,922)
2. Tax Audit add backs	3,309,700	2,463,611
3. Capital allowance:		
- Unrelieved capital allowance b/f	6,440,564	NIL
- Capital allowance for the year	2,145,769	750,659
4. Previous payments by cash (Self-Assessment):		
(a) Companies Income Tax (CIT)	481,357	NIL
(b) Tertiary Education Tax (TET)	203,817	NIL
5. Available withholding tax credit	322,051	107,773
6. Minimum tax computed	688,599	222,330

Required:
You are to attend to the memo, taking into consideration the following:

(1) Recognition of liabilities previously paid. (5 Marks)

(2) Available withholding tax credit notes not previously utilised. (4 Marks)

(3) Agreed minimum tax computation. (4 Marks)
(Total 40 Marks)

SOLUTION TO QUESTION 1

(a) Introduction of 30% foreign equity capital:

(i) Minimum tax provision

The introduction of 30% foreign equity capital implies that minimum tax computation will not be applicable. This is because a business is exempted from minimum tax computation where it has at least 25% imported equity capital in its capital structure. (Applicable before the new Finance Act).

(ii) Certificate of Capital Importation (CCI)

It is a certificate issued by an authorised dealer e.g. a Nigeria bank in accordance with CBN foreign exchange guidelines confirming an inflow of foreign currency (either in form of cash or goods) as direct foreign capital investment into Nigeria by an investor or lender.

A certificate of capital importation is usually issued in the name of applicant company and the primary purpose is to guarantee access to official foreign exchange market for repatriation of capital and returns on investment (e.g. dividend, interest, capital etc).

The company needs to process CCI through the bank using the recently introduced e-e-CCI by CBN. This legitimises and facilitates repatriation of capital in the investors currency of choice.

Also, CCI in required in order to obtain a Business Permit and expatriate quotas.

(b) **(i) Withholding Tax** – It is an advance tax payment of income tax deducted at source in order to bring prospective taxpayer to date base and also curb tax evasion, while widening income tax base.

(ii) Withholding Tax Credit – It is a credit given for the WHT tax deducted at source as an evidence that the taxpayer has suffered tax deduction at source. It can be used by taxpayer to offset company income tax (CIT) due only as it cannot be used to offset EDT and even penalty for late return.

(iii) Withholding tax not payable to the Federal Government:

- Taxes on supplies by enterprises other than a limited liability company.
- Taxes on professional fees received by individuals in any state other than the Federal Capital Territory.
- Taxes on rent received by individuals from any state other than the Federal Capital Territory.
- Taxes on dividend, interests, royalties and commissions in any state other than the Federal Capital Territory.

(c) XYZ Ceramic Manufacturing Company
Re-Computation of CIT and EDT

Year of Assessment (YOA)		2014	2015	
Basis Period		1/1/2013 – 31/12/2013	1/1/2014 – 31/12/2014	
	₦	₦	₦	₦
Adjusted profit/(loss) per audited account		10,190,855		(1,617,922)
Add: Tax audit add back		3,309,700		2,463,611
		13,500,555		845,689
Less: Capital allowance:				
- Unrelieved C/A b/f	(6,440,564)		(--)	
- For the year	(2,145,769)		(750’659)	
Total capital allowance claimable	(8,586,333)		(750,659)	
Claimed C/A (No restriction WNI)	8,586,333	(8,586,333)	750,659	(750,659)
Unitilize C/A c/f	Nil		Nil	
Taxable profit		4,914,222		95,030

Tax: CIT @ 30%	1,474,267		28,509	
Minimum tax provision	688,599		222,330	
CIT payable (WN2)		1,474,267		222,330
Less:				
CIT previously paid (cash self assessment)	481,357		--	
WHT credit note	322,051	(803,408)	107,773	(107,773
(a) Additional CIT due		670,859		114,557
(b) EDT @ 2% [2% x ₦13,500,555]		270,011		16,914
Less: EDT previously paid (cash)		(203,817)		(--)
Additional EDT due		66,194		16,914

Working Note

(i) No restriction on Capital Allowance for manufacturing company.

(ii) Company income tax payable is higher of computed CIT & Minimum tax.

EXAMINER'S REPORT

The question tests candidates understanding of principles and the ability to make necessary presentation and corrections (i.e. determine the tax liabilities payable CIT, EDT etc) in line with final decision taken at Tax Reconciliation meeting between a taxpayer & its representatives/consultants and the relevant tax authorities.

Parts (a) & (b) were well understood and well attempted by the candidates and performance was good. Candidates performance in part (c) was below average.

Candidates' common pitfall was lack of understanding of part (c) of the question.

Candidates are advised to ensure adequate preparation for future examinations.

2. (a) Define and explain the term "Benefit In Kind". (5 Marks)

(b) According to Personal Income Tax Act, CAP P8, LFN 2004, discuss the extent to which benefits in kind are liable to tax. (10 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 2

(a) Benefit-in-kind (BIK)

Benefit-in-kind refers to part of an employee's remuneration package which is given to him in kind rather than in cash. Benefits in kind are benefits that an employee enjoy from his employment other than cash, for example, some employers provide company cars, living accommodation with or without furniture, domestic servants, etc. to certain categories of employees.

(b) Extent to which benefits-in-kind are taxable:-

(i) Living accommodation:

Where any premises in Nigeria are made available to an employee or his/her spouse and the employee pays no rent or the rent paid by him/her is less than the annual value of the premises, the employee is treated as being in receipt of an additional emolument at an annual rate equal to the annual value (i.e. rateable value) of the premises less the rent paid by the employee.

Where the premises are occupied for less than a year or only part of the premises is occupied or both, the annual value (i.e. rateable value) should be appropriately apportioned.

(ii) Cars and other assets:

Where an employer's assets (e.g. car) is provided for an employee's use, the employer is deemed to incur an annual expense equal to 5% of the cost of the asset or if the cost cannot be ascertained then, 5% of the market value of the asset at the date of acquisition as determined by the tax authority. The amount is taxable in the hand of the employee.

Where an asset is rented or hired by an employer for an employee's use, the employer is deemed to incur annual expense equals to the annual cost of the rent or hire. The annual expense so deemed to be incurred by the employer is taxable in the hands of the employee.

(iii) Other taxable benefits in kind:

The act provides that in any other case apart from living accommodation and assets, the employer is deemed to incur annual expense equal to the annual amount expended in providing such benefits-in-kind. For example electricity bills, telephone bills, wages of domestic servants, drivers etc. paid by the employer on behalf of its employee. The annual amount so deemed to be incurred by the employer is treated an additional emolument to the employees less so much (if any) of the annual expense as is made good to the employer by the employee.

Any benefit-in-kind provided to the employee's spouse family, servant, dependent or guest is deemed to have been provided to the employee.

(iv) Non-taxable benefits-in-kind:

The employee is not treated as being in receipt of any additional emolument or taxable profits if the employer incurs:

- Expenses with regards to the provision of meals in any canteen in which meals are provided for the staff generally or of luncheon vouchers for employees so far as those vouchers are not assignable by an employee to whom they are issued;
- Expenses in the provision of any uniform, overall or other protective clothing; and
- Reasonable removal expenses which may or may not include a temporary subsistence allowance due to a change of the employee's employment requiring him to change his place of residence.

EXAMINER'S REPORT

The question tests candidates' understanding of Benefits In Kind (BIK), and tax implications as it affects employees.

Most of the candidates understood the question and performance was good.

The commonest pitfall was the inability of some candidates to clearly explain the extent to which Benefits In Kind are liable to tax.

Candidates are advised to ensure adequate coverage of the entire syllabus when preparing for future examinations.

3. Iroko Nigeria Construction Company Limited commenced business on July 1, 2014 making up its accounts to 30 June every year. The schedule of assets acquired prior to commencement of the business is as shown below:

Description	₦
Furniture and fittings	1,500,000
Construction factory building	16,000,000
Motor vehicles for field operations	14,000,000
Tractors and graders	10,500,000

The company won a contract and additional assets purchased are as follows:

Date of purchase	Description	No of items	Value
October 2015	Plant & machinery	2	3,600,000
November 2015	Motor vehicles	2	2,700,000
December 2015	Buildings	1	3,000,000
December 2015	Generator	1	1,500,000
May 2016	Factory extension	1	1,400,000
June 2016	Pick-up van	1	2,500,000

You are required to:

Prepare the schedule of capital expenditure allocation and identify the qualifying Capital expenditure on which capital allowance are claimable.

(a) Using normal basis of assessment.

(b) Using revised basis of assessment (based on the tax payer's right of election).

(15 Marks)

SOLUTION TO QUESTION 3

(a) IROKO NIGERIA CONSTRUCTION COMPANY LIMITED SCHEDULE OF CAPITAL EXPENDITURE ALLOCATION AND QUALIFYING CAPITAL EXPENDITURE ON NORMAL BASIS

YOA	Basis Period for Assessment	Basis Period for Qualifying Exp.	Qualifying Capital Exp.	Amount ₦
2014	1/7/14 – 31/12/14	1/7/14 – 31/12/14	- Furniture & fittings	1,500,000
			- Construction factory building	16,000,000
			- Motor vehicles	14,000,000
			- Tractors & Gardens	10,500,000
2015	1/7/14 – 30/6/15	1/1/15 – 30/6/15	--	--
2016	1/7/14 – 30/6/15	N. A.	--	--
2017	1/7/15 – 30/6/16	1/7/15 – 30/6/16	- Plant & machinery	3,600,000
			- Motor vehicles	2,700,000
			- Building	3,000,000
			- Generator	1,500,000
			- Factory extension	1,400,000
			- Pickup van	2,500,000

(b) IROKO NIGERIA CONSTRUCTION COMPANY LIMITED SCHEDULE OF CAPITAL EXPENDITURE ALLOCATION AND QUALIFYING CAPITAL EXPENDITURE ON REVISED BASIS

YOA	Basis Period for Assessment	Basis Period for Qualifying Exp.	Qualifying Capital Exp.	Amount ₦
2014	1/7/14 – 31/12/14	1/7/14 – 31/12/14	- Furniture & fittings	1,500,000
			- Construction factory building	16,000,000
			- Motor vehicles	14,000,000

			- Tractors & borders	10,500,000
2015	1/1/15 – 31/12/15	1/1/15 – 31/12/15	- Plant & machinery	3,600,000
			- Motor vehicles	2,700,000
			- Building	3,000,000
			- Generator	1,500,000
2016	1/1/16-31/12/16	1/1/18 – 31/12/16	- Factory extension	1,400,000
			- Pick up van	2,500,000

EXAMINER'S REPORT

The question tests principle involved in aligning commencement rule with basis period for capital allowance so as to determine the appropriate tax year when a qualified capital expenditure (QCE) acquired at different dates before and after commencement of business will be incorporated.

Some of the candidates understood the question and their performance was good. However, most of the candidates' performance was poor.

The commonest pitfall was candidates' lack of understanding of principle of basis period for capital allowance in relation to basis period for assessable profit.

Candidates are advised to make use of the Institute's study pack when preparing for future examinations.

4. In relation to tax administration in Nigeria, you are required to answer the following:

(a) State Five (5) members of the State Board of Internal Revenue. (5 Marks)

(b) State Five (5) functions of the State Board of Internal Revenue. (5 Marks)

(c) What constitute a quorum of the State Board of Internal Revenue? (1 Mark)

(d) Give Four (4) examples of taxes collectible by the State Internal Revenue Service. (4 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 4

(a) Members of State Board of Internal Revenue

(i) The Executive head of the State Internal Revenue Service as Chairman, who shall be a person experienced in taxation and be appointed by the governor from within the state service.
(ii) The Directors and Head of Department within the state service.
(iii) A Director from the state Ministry of Finance.
(iv) The Legal Adviser to the state service.
(v) Three other person nominated by the Commissioner for Finance in the state on their personal merit; and
(vi) The Secretary of the state service who shall be an ex-officio member.

(b) Function of State Board of Internal Revenue

(i) To ensure the effective and optimum collection of all taxes and penalties due to the government under the relevant laws.
(ii) To do all such things as may be deemed necessary and expedient for the assessment and collection of the tax and shall account for all amounts so collected in a manner to be prescribed by the commissioner.
(iii) To make recommendations, where appropriate, to the Joint Tax Board on tax policies, tax reform, tax legislation, tax treaties and exemption as may be required, from time to time.

(iv) Generally control the management of the state service on matters of policy, subject to the provisions of the law setting up the state service.

(v) To appoint, promote, transfer and impose discipline on employees of the state service.

(c) Any five (5) members of the State Board, of whom one shall be the Chairman or a Director, shall constitute a quorum.

(d) The following are taxes collectible by state:

(i) Personal income tax in respect of:
- PAYE; and
- Direct assessment.

(ii) Stamp duties on instruments executed by individuals;

(iii) Capital gains tax – individuals only;

(iv) Withholding tax – individuals only;

(v) Road taxes;

(vi) Pools betting and lottery; gaming and casino taxes;

(vii) Development levy; and

(viii) Slaughter slab in the state capital.

EXAMINER'S REPORT

The question tests candidates' understanding of tax administration as it relates to state board of internal revenue. Performance was above average.

The commonest pitfall was that majority of the candidates did not know the functions of the State Board of Internal Revenue.

Candidates are advised to cover all areas of the syllabus when preparing for future examinations.

5. (a) Chief Timothy is a land speculator who is into buying and selling of land. You are to determine the capital gain and the capital gain tax liability under the following three independent situations, stating and explaining the principles involved.

(i) Chief Timothy disposed off a plot of land for ₦1,550,000 and incurred 10% as agency fee. The land was actually acquired for ₦750,000 excluding 10% legal fees paid. (4 Marks)

(ii) In order to make good/settle his debt owed Mr Vincent, Chief Timothy decided to exchange his landed property valued at ₦2,000,000 for a debt of ₦2,450,000. The piece of land was subsequently disposed off by Mr Vincent in the same year for ₦3,175,000. (4 Marks)

(iii) Chief Timothy sold one acre of land whose original cost is ₦10,250,000 to Pastor Ben, his father in-law, for a sum of ₦12,500,000. The market value of the land is ₦17,750,000. (4 Marks)

(b) Itemise Three (3) conditions or situations that may make a business to opt to change it's accounting year end date. (3 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 5

(a) (i) Chief Timothy

	₦	₦
Sales proceed	1,550,000	
Less: Sales agency fee 10% (10% x ₦1.55m)	(155,000)	

Net sales proceed		1,395,000
Less: Cost of acquisition	750,000	
Add: Legal fees	75,000	(825,000)
Capital gain		570,000
Capital gain tax @ 10%		57,000

Note 1:- This is a normal transaction at arms length.

(ii) Mr. Vincent
Computation of Capital Gain Liability

	₦
Sales proceed	3,175,000
Less: Value of debt (WN2)	(2,450,000)
Capital gain	725,000
Capital gain tax @ 10%	72,500

Note 2:- This involves collecting chargeable asset in exchange for debt owed.

Capital gains tax liability occurs only when the asset acquired in exchange for debt is disposed.

The capital gain is the difference between the sale proceed and the value of debt and not value of asset.

(iii) Chief Timothy
Computation of Capital Gain Liability

	₦
Market value of land (WN 3)	17,750,000
Less: Cost of acquisition	(10,250,000)
Capital gain	7,500,000
Capital gain tax 10%	750,000

Note 3: This involves connected person. In a connected person transaction, the sales value is the higher of the market value and sale proceed. Here, the market value of ₦17.5m in higher than sale proceed of ₦12.50m.

(b) Three conditions/situations that may make a business to opt for a change in accounting date are:
(i) In order to conform with budget date of government;
(ii) Where the company (e.g. subsidiary) wants to align its accounting date with that of holding company;
(iii) Where the company wants to absorb accumulated losses; and
(iv) In order to align with seasonal variation in the business cash flow.

EXAMINER'S REPORT
The question tests candidates' understanding of the principle of determination of capital gain & capital gain tax under different scenarios e.g. normal arms length transaction, related party transaction and use of asset to effect settlement of debt.
Candidates' performance was very good.

6. Busy B Global Nigeria Ltd decides to cease business permanently after a sudden fall in profits which is likely to continue.

You are provided with the accounts of the company for the last three financial years of business operations as follows:

	₦
30 November 2014………………………	6, 375,000
30 November 2015………………………	6, 870,000
30 November 2016………………………..	1,050,000

Required:

(a) (i) Compute the assessable profit for the last two years of the business in line with the cessation rule. (7 Marks)

(ii) State Three (3) instances when a business could cease to operate. (3 Marks)

(b) Discuss and give due dates for the filing and payment for the following taxes to the relevant tax authorities:

- Pay as you earn (PAYE);
- Withholding tax (WHT);
- Company income tax (Existing and New companies);
- National Information and Technology Development Levy (for applicable Companies). (5 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 6

(a) (i) Busy B Global Nig. Ltd.

Computation of Assessable Profit

Year of Assessment	Basis Period of Assessment	Assessable Profit	
		₦	₦
2015 Penultimate yr	(i) Actual (1/1/2015 – 31/12/2015)		
	- 1/1/2015 – 30/11/2015 = 11/12 x 6,870,000	6,297,500	
	- 1/12/2015 – 31/12/2015 = 1/12 x 1,050,000	87,500	
		6,388,000	
	(ii) PYB (1/12/2013 – 30/11/2014)	6,375,000	
Higher of Actual or PYB	Tax authority will assess on Actual Year Basis		6,385,000
2016	(1/1/2016 – 30/11/2016		
Ultimate year (WN2) Jan. to date of cessation	11/12 x ₦1,050,000 = 962,500		962,500

(ii) Instances when a business could cease to operate are:

- When a business is established for a specific purpose and the purpose has been fulfilled;
- On voluntary or involuntary liquidation;
- On acquisition of a company by another company;
- When there is a fall in demand which will affect performance of business and continuity in business; and

- When there is a change in government policy that affects the going concern/existence of the business.

(b) **Returns** **Due dates for filling & payment**

(i)	Pay As You Earn (PAYE)	Within 10th day of every month following month of deduction.
(ii)	Withholding Tax (WHT)	Within 21 days after the month of transaction
(iii)	Company Income Tax (CIT) - Existing/old company	Six (6) months after the end of the company's accounting year.
	- New company	Eighteen (18) months from the date of incorporation or six (6) months after the end of the company's first accounting period whichever is earlier.
(iv)	National Information and Technology Levy (NITL)	Same as for CIT

EXAMINER'S REPORT

The question tests candidates' knowledge of cessation rule and reasons why some businesses cease operation in part (a) while part (b) tests due dates for filling and payments of dates different taxes.

Candidates' performance in part (a) was poor while their performance was excellent in part (b) of the question.

The commonest pitfall of candidates was lack of understanding of cessation principle under the tax laws.

Candidates are advised to ensure adequate coverage of the syllabus when preparing for future examinations.

7. Johnson, Mariam and Bolatito are in partnership. They agreed to share profits or losses in the ratio of 4:3:2 respectively. During the year ended December 31, 2015, their books and records showed a profit of ₦6,500,000 after taking into consideration the followings:

	Johnson	**Mariam**	**Bolatito**
Salaries	1,500,000	1,750,000	3,200,000
Interest on capital	250,000	340,000	240,000
Bonus	130,000	90,000	215,000

The figure for depreciation charge is provided as ₦2,330,000.

The following additional information are provided:

(i) Johnson received ₦1,100,000 as gratuity from his previous employment;

(ii) Johnson is blessed with six children and maintained three dependant relatives on whom he expended ₦25,000 annually;

(iii) Johnson also has a life assurance policy on himself attracting capital sum of ₦5,000,000. He pays an annual premium of ₦45,000;

(iv) Mariam is an unmarried woman but Bolatito is married and has three children aged 7, 9 and 12 years respectively; and

(v) Capital allowance agreed with the relevant tax authority amounted to ₦2,330,000.

Required:

(a) Compute the chargeable income of partners

(b) Compute the income tax of all partners.

(15 Marks)

SOLUTION TO QUESTION 7

(a) Computation of Partners Chargeable Income for 2016 Year of Assessment

	Johnson	Mariam	Bolatito
	₦	₦	₦
Salaries	1,500,000	1,750,000	3,200,000
Interest on capital	250,000	340,000	240,000
Bonus	130,000	90,000	215,000
Share of profit (w1)	2,888,889	2,166,667	1,444,444
Assessable income	4,768,889	4,346,667	5,099,444
Deduct:			
Consolidated relief allowance (w2)	1,153,778	1,069,333	1,219,889
Life assurance premium	45,000	--	--
Chargeable income	3,570,111	3,277,334	3,879,555

(b) Computation of Income Tax Payable by the Partner:

	Johnson	Mariam	Bolatito
	₦	₦	₦
Chargeable income	3,570,111	3,277,334	3,979,555
First ₦300,000 @ 7%	21,000	21,000	21,000
Next ₦300,000 @ 11%	33,000	33,000	33,000
Next ₦500,000 @ 15%	75,000	75,000	75,000
Next ₦500,000 @ 19%	95,000	95,000	95,000
Next ₦1,600,000 @ 21%	336,000	336,000	336,000
Balance – Johnson (₦3,570,111 – ₦3,200,000) x 24%	88,827	--	--
-Mariam (₦3,277,334 – ₦3,200,000) x 24%	--	18,560	--
-Bolatito (₦3,979,555 – ₦3,200,000) x 24%	--	--	187,693
	648,827	578,560	747,093

Workings

w1 Computation of Adjusted Profit and Share of Profit to Partners

	₦	Johnson	Mariam	Bolatito
Profit	6,500,000			
Add: Disallowed Expenses:				
Depreciation	2,330,000			
Adjusted profit	8,830,000			
Less: Capital allowance	(2,330,000)			
Divisible income	6,500,000			
Share of divisible income in agreed PSR (4:3:2)	(6,500,000)	2,888,889	2,166,667	1,444,444

w2 Consolidated Relief Allowance

(Higher of ₦200,000 or 1% of gross income) + 20% of gross income

		₦
Johnson	(₦200,000 or 1% x ₦4,768,889) + 20% x ₦4,768,889	
	₦200,000 + ₦953,777.8	1,153,778
Mariam	(₦200,000 or 1% x ₦4,346,667) + 20% x ₦4,346,667	1,069,333
Bolatito	(₦200,000 or 1% x ₦5,099,444) + 20% x ₦5,099,444	1,219,888

EXAMINER'S REPORT

The question tests candidates' understanding of determination of chargeable income tax of partners in a partnership. Few candidates attempted the question and performance was above average.

The commonest pitfall was inability of candidates to present their calculations in the standard format.

Candidates are advised to study the Institute's study pack when preparing for future examinations.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

PROFESSIONAL EXAMINATION

PTE I: GOVERNANCE, RISK & ETHICS

EXAM NO………………………..……………………..…. **TIME: 3 HOURS.**

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS

1. Legend Industries International (LII) is a multinational organisation and is one of the largest global producers of chocolate, coffee and other beverages. LII categorises the countries in which it operates as follows:

   - Less developed countries from which LII sources its raw materials, but with no established local market for the finished product.
   - Developed countries where manufacturing takes place for sale to local and export markets.

   In every country in which LII operates, it follows the Organisation for Economic Cooperation and Development (OECD) guidelines for multinationals.

   In the particular case of a country named NUMABA, a less developed country, LII has helped the local farmers to organise themselves into cooperatives to produce crops. LII also funds schools for children of both the farmers and its workers, built and staffed a hospital and has also provided welfare services to residents. LII has successfully built an image of a good corporate citizen for itself within NUMABA, thus becoming a reference point of good corporate practice on the OECD website.

   Although farmers' cooperatives within NUMABA can sell raw materials to LII's competitors, they tend not to do so because of the close and friendly working relationship that they have with LII. Both LII's main competitors are smaller multinational corporations.

   However, LII has recently been receiving some bad publicity from NUMABA. The management of LII feels that this is being organised by the government and labour unions. The government of NUMABA is reasonably supportive of business, but won the last election with a narrow majority. The government is now under pressure to raise the standard of living of the population. An election is due in the next fifteen months. The National Labour Union, which is increasingly being supported by the main opposition party in NUMABA, is extremely anti-business. It will like to see all foreign companies leave NUMABA and all foreign-owned cooperatives nationalised.

   The government of NUMABA has stated that the price paid for cocoa beans is too low such that NUMABA is not gaining sufficient tax revenue from the exports.

   The government of NUMABA has threatened to impose an export tariff on cocoa beans unless LII opens a manufacturing facility in NUMABA. The management of LII feels that the company has been targeted by the government because it is the largest of the three multinational corporations operating in the country.

The National Labour Unions of NUMABA have argued that farm workers are being victimised by the farm owners who have become too powerful due to the influence of their cooperatives. It states that the government of NUMABA should not allow the farmers to operate in this way. Management of LII does not want to build a factory because the associated increase in transportation will make such factory unviable. The Managing Director of LII is due to meet with government officials to discuss LII's future operations and involvement in the country.

Required:

(a) (i) Produce a stakeholder analysis of any six (6) stakeholders of LII's operations in NUMABA. (12 Marks)

(ii) Distinguish between stakeholder mapping and cultural dimension to stakeholder influence. (6 Marks)

(b) From the given scenario, explain the following:

(i) Cultural context of ethics. (5 Marks)

(ii) Define Corporate Social Responsibility and identify its beneficiaries. (5 Marks)

(c) (i) As a tax consultant to LII, identify specific and potential tax exposures (Tax Risk) and suggest how such risks should be managed without tax evasion. (10 Marks)

(ii) Differentiate between tax avoidance and tax evasion. (2 Marks)

(Total 40 Marks)

SOLUTION TO QUESTION 1

(a) (i) LEGEND INDUSTRIES INTERNATIONAL STAKEHOLDER ANALYSIS

Who is a Stakeholders? A stakeholder to any entity is any individual, group of individuals or external organisations that has interest or claims or (a stake) in what the entity does or the overall objective of the entity stakeholders and their claims

S/N	**Stakeholder**	**Rights**	**Duties**	**Claims**
1.	Shareholders	Right to vote and as set out in the articles	None	Growth in share price, stable dividends. Return on investment etc
2.	Directors	No rights but has delegative powers issued from the articles	Leadership legal duty of skills and due care	Good welfare and remuneration package
3.	Top-level manager	Employment rights	Carry out their assigned tasks	Good working conditions and remuneration package
4.	Employees	Employment rights	Carry out their assigned tasks	Good working conditions and remuneration package

5.	Customers	Quality product and services	Nil	Good products at reasonable price
6.	Suppliers	Regular payment for supply	Nil	Prompt settlement and good business relationship
7.	Host communities	Nil	Nil	Employment creation, environmental protection etc
8.	Government	Nil	Nil	Statutory compliance and payment of taxes
9.	Bankers & finances	Nil	Nil	Fulfilling financial obligation signed
10.	General public	Nil	Nil	Quality products at affordable prices, environment friendly operations
11.	Competitors	Nil	Nil	Avoidance of unhealthily rivalry and negative advertisements.

(ii) Stakeholder mapping is the presentation of results of a stakeholders assessment using a simple diagram showing the main stakeholder groups and their relative importance. The purpose of stakeholder mapping is to assist the management or those in governance to obtain an appreciation of who the stakeholders are and what their real and potential influences are over the entity and the entity's strategies.

While the cultural dismension to stakeholders influence is the relative importance of different stakeholders for an entity, and the way in which management respond to their interest vary according to the culture of the country or region in which the entity operates, the culture of the organisation itself and those in governance.

(bi) **Cultural context of ethics**

Culture has been defined as the "shared beliefs, attitude, norms, values and behaviours found among speakers of one language in one time period and in one geographical region. But there is a link between culture and ethics. Ethics refers to what is good or bad within a group or society. Therefore it is observed that the culture of a group of people or society most times determines their definition of what is good or bad on that society. But where we have societies that have multiple cultures, the dominant culture tends to determine what is good or bad or we have different definitions of the acceptable behaviours across the cultural divide.

(ii) Corporate social responsibility (CSR) is the awareness and acceptance as part of business ethics by entities to respond and be responsible to the claims or stakes of its stakeholders especially external stakeholders.

The natural beneficiaries of CSR are:

- Employees
- Customers
- Host communities
- Government

- General public

(ci) The tax exposures (risk) identified in the case are:
- Possible imposition of raw material or commodities tax on cocoa beans in order to increase the price of cocoa beans.
- The imminent establishment of a factory will lead to the payment of exercise duty by LII leading to the operation of the factory at a loss
- The possibility of the government asking them to convert voluntary and part-time workers to regular staff .
  The employment of regular staff attracts the deduction of PAYE from staff salaries which must be remitted to the state tax authority.

  Step to manage the potential tax exposure without evading tax will include the following:
  - If the commodities tax is paid on cocoa beans, it is seen as part of the cost components in the chain of exports or production.
  - The board taking a final decision not to establish a factory sighting reasons of inadequate capital or avoidance of increased cost of operations.
  - The management still has the discretion not to convert all the part-time and volunteers but rather conduct an aptitude test for them to short-list and employ some of them.

(ii) Tax avoidance is structuring your affairs in such a way that you pay the least amount of tax due. It is legal to do it. Tax evasion is the use of illegal methods of concealing income, assets or information to dodge liability.

EXAMINER'S REPORT

This is a case study question. It is compulsory hence attempted by all the candidates.

The performance of the candidates was below average.

The commonest pitfall was inability to correctly define corporate. Social responsibility while other could not identify the beneficiaries of corporate social responsibility (CSR).

Candidates are advised to make use of the Institute's study available on line for better performance in future examinations.

2. There is a direct relationship between business ethics and business success.

   Discuss any Ten (10) benefits of business ethics to an organisation. (15 Marks)

SOLUTION TO QUESTION 2

Business Ethics address the following issues:

(i) Exploitation of vulnerable groups, workers, trust, control over markets, etc has resulted in framing anti-trust laws and recognition of labour union;

(ii) Business ethics is critical during period of fundamental change. It provides a moral compass to guide leaders on what is right or wrong. It helps in maintaining consistency of action;

(iii) It engender strong team work and greater productivity. It leads to openness, integrity and a sense of community. It align the values of employees with the organisation. It also motivates for better performance;

(iv) Enhanced employee growth. It gives employees confidence to deal with complex situations;

(v) Ethical programmers ensure legality of personnel policies, ethical treatment of staff in matters of hiring, evaluation and discipline;

(vi) It helps in managing diversity by managing diverse values and perspectives;

(vii) It helps to save costs on litigation by revealing acts that may lead to legal actions;

(viii) It helps to avoid criminal act of omission by early detection of unethical issues and violations;

(ix) Success of business depends on the fairness and honesty in the business as most clients prefer;

(x) Ethics correspondents to basic human needs. It is human to want to be ethical. This compels organisations to be ethically oriented;

(xi) Ethics creates credibility with the public: The public will respect a company perceived to be ethically and socially responsive. The public will favour its products believing that the company offers value for money;

(xii) Ethics give management credibility with employees. Organisational ethics, when perceived by employees as genuine, creates common goals, value and language;

(xiii) Ethics help betters decision making, the ethical position of the organisation help management to take consistent decision;

(xiv) Ethics and profit go together" Ethical companies are usually value driven and hence profitable in the long-run; and

(xv) Law's cannot protect society adequately but ethics can. Technology develops favour than regulation, hence harmful effects of technology cannot be effectively curbed by regulation. Also, government cannot also regulate or legislate against all activities that are harmful to society

EXAMINER'S REPORT

The question tests candidates' knowledge of business ethics.
About 90% of the candidates attempted the question and performance was very good

3. (a) Explain the term "Emotional Intelligence". (5 Marks)

   (b) Describe the Five (5) main Emotional Intelligence constructs using the Mixed Model. (10 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 3

(a) Emotional intelligence (EQ) is the ability to identify and manage your emotions, as well as other people's emotions.

If you are emotionally intelligent you have the ability to:

- Identify what you are feeling;
- Know how to interprete your emotions;
- Understand how your emotions can impact others;
- Regulate your own emotions; and

- Manage other people's emotions.

Some people naturally inherit high emotional intelligence but it is a skill that you can practice and develop. By practicing emotionally intelligent behaviours your brain will adapt to make these behaviours automatically and replace less helpful behaviours

(b) Emotional construct using the mixed model: There are five emotional constructs of emotional intelligence, each with their own benefits. These are:
   (i) Self – awareness;
   (ii) Self-regulation;
   (iii) Empathy;
   (iv) Motivation; and
   (v) Social skill.

(i) Self- awareness: This is the ability to accurately recognise your emotions, strengths, limitations, actions and understand how these affect others around you.

(ii) Self-regulation: Self-regulation allows you to wisely manage your emotions and impulses you show or refrain certain emotions depending on what is necessary and beneficial for the situation. For example rather than shouting at your employees when you are stressed, you may decide which tasks can be delegated.

(iii) Empathy: To be empathy means you are able to identify and understand others' emotion i.e. imagining yourself in someone else's position.

(iv) Motivation: Being self-motivated consists of enjoying what you do, working toward achieving your goals and not being motivated by money or status

(v) Social skills: Effective social skills consist of managing relationship in a way that benefits the organization.

EXAMINER'S REPORT

The question tests candidates' knowledge of emotional intelligence.
About 90% of the candidates attempted the question and performance was very good.

4. (a) Explain the concept of board diversity giving three (3) examples of each category of diversity. (10 Marks)

   (b) Identify Five (5) principles of good governance in the public-sector. (5 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 4

(a) The concept of board diversity means that a board must be composed of a range of many people that are different from each other in terms of age, race, gender,educational background, professional qualification, experience, personal attitudes, marital status and religion.

Some categories of board diversity are:
- Gender- based diversity;
- Age-based diversity;
- Academic/professional diversity;
- Tribal/ethnic/national based diversity;
- Marital based diversity;
- Religions-based diversity; and
- Attitudinal diversity.

3 Examples of the above categories will be as follows:

- A board full of men or with scanty women e.g 7:2 men to women ratio board is having gender-based diversity;
- A board having all directors to be 50 years and above does not believe in young brains, it is age-based diversity; and
- A medical Hospital Board having all its directors as medical doctors is having professional diversity.

(b) Principles of good governance in the public sector are:
   (i) Rule of law;
   (ii) Transparency;
   (iii) Accountability;
   (iv) Public sector ethics and probity;
   (v) Stewardship;
   (vi) Leadership;
   (vii) Participation; and
   (viii) Responsiveness.

EXAMINER'S REPORT

The question tests candidates' knowledge of board diversity.

About half of the candidates attempted the question and performance was just fair.

The commonest pitfall of the candidates was lack of understanding of the requirement of the question.

Candidates are advised to make use of the Institute's study pack when preparing for future examinations.

5. Leadership is defined as a "process of social influence in which a person can enlist the aid and support of others in the accomplishment of common task".

   You are required to explain Ten (10) qualities a good leader must possess. (15 Marks)

SOLUTION TO QUESTION 5

Quantities of a Good Leader

(i) Honesty – A good leader must display sincerity, integrity and candor in all his/her actions deceptive behavior will not inspire trust.

(ii) Competence- A good leader must base his actions on reason and moral prinicples. He should not make decisions based on childlike emotional desires or feelings

(iii) Forward – Looking: A good leader set goals and have a vision for the future. The vision must be owned throughout the organisation. Effective leaders envision what they want and how to get it. Good leader habitually pick priorities stemming from their basic values.

(iv) Inspiring- A good leader display confidence in all he does. By showing endurance in mental, physical and spiritual stamina, he will inspire others to reach for new heights. He should take charge when necessary.

(v) Inteligent- A good leader reads, studies and seeks challenging assignments.

(vi) Fair- minded – A good leader should show fair treatment to all people. Prejudice is the enemy of justice. Display empathy by being sensitive to the feelings, values, interests and well being of others.

(vii) Courageous – A good leader has the perseverance to accomplish a goal, regardless of any obstacles. Display a confident calmness when under stress.

(ix) Confidence – A good leader is confident. In order to lead and set direction, a leader needs to appear confident as a person and in the leadership role. Such a person inspires confidence in others and drains out the trust and best effort of the team to complete the task well.

(x) Tolerance – A good leader is tolerant of ambiguity and remain calm, composed and steadfast to the main purpose. Storms, emotions and crises come and go and a good leader takes these as part of the journey and keeps a cool head.

(xi) Excellence – A good leader is committed to excellence. Second best does not lead to success. A good leader not only maintain high standards, but also is practice in raising the bar in order to achieve excellence in all areas.

(xii) Imagination – A good leader makes timely and appropriate changes in thinking, plans and methods. He should show creativity by thinking of new and better goals, ideas and solutions to problems should be innovative

(xiii) Straight forward – A good leader uses sound judgement to make a good decisions at the right time.

(xiv) Broad- minded – A good leader seeks out diversity by being broad-minded.

(xv) Emotionally intelligent: ability to relate to the and empathize with people.

EXAMINER'S REPORT

The question tests candidates' knowledge of leadership and the qualities of a good leader. The candidates understood the question very well and performance was excellent.

6. Explain the safeguards available to a tax practitioner/consultant in the course of carrying out his/her duty. (15 Marks)

SOLUTION TO QUESTION 6

Some of the safeguards available to a tax practitioner or consultant in the course of performing his professional duty are the following:

- Professional Indemnity Insurance;
- Business continuity plan;
- Professional clearance;
- Mandatory professional training programme; and
- Insurance Arrangement.

Professional Indemnify Insurance

The chartered Tax Practitioners is advised to open a profession indemnify insurance with any reputable insurance company on his personality or practice to indemnify him or his practice in the event of any occurrence that may damage his reputation or that of his firm.

Business Continuity Plan

This is an articulated plan on the survival of the firm and or provisions of members to take-over the running of the firm and what to happen to clients' transactions on the event of sudden death of the managing pioneer of the firm or incident of fire, flood or act of God.

Professional Clearance
This is the clearance a member gets from the client to consult with the outgoing tax practitioner as regards a professional work he is about to undertake in place of the former and finally also getting the clearance from the former tax practitioner to continue with the new work.

Mandatory Professional Trading Programme
This is the regular training programme organised by CITN to educate inform and upgrade members on new trends in taxation and complimentary government's actions.

Insurance Arrangements
A member should satisfy himself that his employer has adequate indemnity insurance covering him on taxation services provided on behalf of the employer or in the case of cessation or merger.

EXAMINER'S REPORT
The question tests candidates' knowledge of safeguards available to a tax practioner/consultant during the course of his duty.
Few candidates' attempted the question and performing was just fair.
The commonest pitfall was that the candidates did not understand the safeguards available to a tax practioner.
Candidates are advised to ensure they prepare adequately for good performance in future examinations.

7. Adewale Usman has just been inducted as a Chartered Tax Practitioner and has been nominated to head the tax advisory section of ROPS GLOBAL Professional Service. At the last management meeting, he was co-opted into the Sub-committee on Mission Statement.

   (a) Advise Adewale Usman on any Six (6) key component of a well-crafted Mission Statement. (12 Marks)

   (b) Suggest a Mission Statement for Adewale Usman which ROPS Global Services can adopt. (3 Marks)

   (Total 15 Marks)

SOLUTION TO QUESTION 7
(a) A mission statement defines the present state a purpose of an entity and should be precise and distinct. The 5 elements which may be incorporated in the mission statement of the firm are as follows:
   * Actual business activity;
   * Value for customers;
   * Entity's competitors;
   * Employees' roles; and
   * Ethical philosophy.

Actual Business Activity
The mission statement must capture the actual business activity of the organisation in question. This means that the business line, service, operations or specific product of the organisation can be captured in a mission statement e.g. "Empower people through great software anytime, any place and any device". Software being product or the actual business activity.

Value for Customers
The mission statement may also capture the value the organization placed on the customers. This is usually in terms of the quality of service or products offered to customers or accepting convenient terms of payment from customers (i.e. trade and cash discounts)

Entity's Competitors
The mission statement may also capture the identification and recognition of competitors in the same sector and industry and the impacts they can have on the organisation e.g. "To be the best on our chosen field and recognising competitors impacts on our achievement"

Employees' Roles
The employees of any organisation are always critical to the achievement of the objectives of the organisation but most- organisations are silent on the roles or stake of the employees in the organisation, there are still some that recognises it to the extent of capturing it in the mission statement. E.g. "To be the choice company where staff welfare is not relegated".

(b) A sample mission statement will be:
"To meet all tax advisory and consulting needs of our client in a bespoke manner using cutting edge technology in a professional manner whilst meeting international best practices".

EXAMINER'S REPORT
The question tests candidates understanding of organisation's mission statement and its characteristics
Most candidates that attempted the question performed badly.
The candidates' commonest pitfall was lack of understanding of the concept.
Candidates are advised to ensure that they prepare adequately for future examinations.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

PROFESSIONAL EXAMINATION

PTE I: INDIRECT TAXATION

EXAM NO……………………….……………………..….   TIME: 3 HOURS.

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS

SHOW ALL WORKINGS.

1. Queens Restaurants Limited was incorporated as a limited liability company in January 2019 and started operations the same month. The company runs a chain of restaurants within the Lagos metropolis.

The restaurant maintains a separate account in its general ledger for its VAT transactions. The balance on its VAT account as at December 31, 2019 was ₦2,715,000. The following transactions were recorded in its VAT account during the year.

		₦
VAT Charged:	Food	2,310,000
	Drinks	3,765,000
VAT Paid:	Food items	1,320,000
	Drinks	150,000
	Kitchen equipment	187,500
	Professional fees	67,500
	Bank charges	75,000
VAT remittance to Federal Inland Revenue Service (FIRS)		3,000,000

You are the tax consultant to the restaurant.

Required:

(a) Discuss the penalty for non-registration for VAT and non-remittance of VAT to FIRS. (6 Marks)

(b) Explain the following terms to the management of Queens's restaurants:

(i) VAT input. (3 Marks)

(ii) VAT output. (3 Marks)

(c) Explain the purpose of the following forms normally used in connection with VAT to the management of the restaurants:

(i) VAT Form 001 (5 Marks)

(ii) VAT Form 002 (5 Marks)

(d) Compute the total VAT due to FIRS from the restaurants in 2019 and explain why you exclude any of the VAT transactions in your calculation. (15 Marks)

(e) Determine the balance of VAT which Queens Restaurants will have to pay to FIRS in 2019. (3 Marks)

Total (40 Marks)

SOLUTION TO QUESTION 1

a. Section 8(1) of the VAT Act states that all VATable persons shall within six months of commencement of the Act or within six months of the incorporation of the company, whichever is earlier, register with the Board for the purpose of the Tax.

Failure to register within the time specified in subsection 1 above shall be liable to pay, as penalty an amount of ₦ 10,000 for the first month in which the failure occurs and ₦ 5,000 for each subsequent month in which the failure persists.

Failure to remit VAT: If a taxable person does not remit the tax within the time specified in section 15 of the Act, a sum equal to 5% per annum (plus interest at the commercial rate) of the amount of tax remittable shall be added to the tax and the provision of the Act relating to collecting and recovery of unremitted tax, penalty and interest shall apply.

b. (i) VAT input: This is the VAT that a company pays on its input for manufacturing VATable goods. These include inputs purchased locally and imported.
For Queens Restaurants, these include VAT paid on food items and drinks purchased.

(ii) VAT Output: This is the VAT charged to the customers on the sale of a company's manufactured goods. For Queens Restaurants, the is the VAT charged to its customers on sales of food and drinks

c. (i) VAT Form 001: This is the form every VATable person is required to fill and submit to the Federal Inland Revenue Service for the purpose of registering for VAT, in line with the Act, which requires a VATable person to register within six months of commencement of business or six month from the beginning of the Act whichever is earlier.

(ii) VAT Form 002: Under the Act, a VATable person is required to render a monthly returns to FIRS on or before the 21st day of the month following the month in which the goods or services were purchased and or supplied.
VAT Form 002 (Value Added Return) is used for this purpose by a registered VATable person. The return shows the total output VAT, total input VAT, amount payable or refundable by FIRS, period covered by the return, etc.

d.

QUEENS RESTAURANTS
COMPUTATION OF VAT PAYABLE

		₦	₦
VAT charged:			
	Food	2,310,000	
	Drinks	3,765,000	
			6,075,000
LESS: VAT paid on:			
	Food items	1,320,000	
	Drinks	150,000	
			1,470,000
VAT due to FIRS			**4,605,000**

The following VAT paid by the restaurant were excluded:
(i) Kitchen equipment, ₦ 187,500. This should form part of the cost of the equipment and should be capitalised.
(ii) Professional fees, ₦ 67,500. This is not an input VAT and so, should be expensed as part of the administrative expenses.
(iii) Bank charges, ₦ 75,000. This is not an input VAT but cost of financing the restaurants operations and should be expensed as part of the finance charges.

(e) BALANCE OF VAT PAYABLE BY QUEEN RESTAURANTS

	₦
Total VAT Payable as calculated in (d) above	4,605,000
Less VAT already remitted to FIRS	3,000,000
Balance of VAT payable	1,605,000

EXAMINER'S REPORT

The question tests the candidates' knowledge of VAT law and its calculation. Candidates understood the question and performed brilliantly well.

Candidate's commonest pitfall in answering the question is inability to explain the terms under the VAT law.

Candidates are advised to adequately prepare before attempting the Institute's future examinations.

2. Stamp duties are taxes paid to the federal or state government on documents for the purpose of legal approval or authority.

Required:

(a) State Three (3) implications of non-stamping of instruments. (3 Marks)

(b) Explain the Two (2) forms of stamp duties and give Five (5) examples of each. (8 Marks)

(c) Discuss adjudication and the benefits of adjudication. (4 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 2

(a) The following are the implications of not stamping an instrument:
(i) Such instrument, which is not duly stamped in accordance with the law in force at the time it was first executed, shall not be given in evidence. This disadvantage cannot be remedied by an agreement between the parties in a case;
(ii) Such an instrument is not admissible whether directly or for collateral purpose. The secondary evidence of the instrument is not admissible either; and
(iii) Cross-examination upon an unstamped document is not allowed.

(b) The two types of duties are:
(i) Fixed Duties: These are duties that do not vary with the consideration for the document being stamped. The same duty is payable irrespective of the value of the instrument.

Examples of instruments with fixed duties are:
- Admission as a Barrister or Solicitor;
- Admission as a notary public;
- Affidavit, affirmation and statutory declaration;
- Instruments of apprenticeship;

- Letter of power of attorney;
- Policy of insurance against accident;
- Receipts;
- Bills of exchange payable on demand, or at sight or on presentation or within three days after date or sight;
- Cheque leaves; and
- Bank notes.

(ii) Ad Valorem duties: These are duties that vary with the amount of consideration and in accordance with a scale stated in the relevant schedule fixed by the government.

Examples of instruments with ad valorem duties are:
- Valuation of any property;
- Bills of exchange of any other kind and promissory note;
- Share capital;
- Loan capital;
- Contract notes for or relating to the sale or purchase of any stock marketable security;
- Debenture;
- Mortgage; and
- Policy of life insurance.

(b) Adjudication: This is the process of determining the correct amount of duty, usually convincingly, by the commissioner of stamp duties.

The benefits of adjudication are:

(i) It is the first step in disputing the views of stamps duties office of the correct amount of duty;

(ii) It shows that the document is genuine;

(iii) It satisfies the statutory requirement; and

(iv) It makes the instruments once adjudicated, admissible for all purposes notwithstanding any objection as to the duty to be paid.

EXAMINER'S REPORT

This question tests candidates' understanding of stamp duties including adjudication in stamp duty laws. Some candidates did not understand this question but a good number of them understood the question and performed above average.

Candidates' commonest pitfall was their inability to express themselves well.

Candidates are advised to prepare adequately for future examinations.

3. Value added tax (VAT), withholding tax (WHT) and custom duties are forms of taxes collectible by the government in Nigeria to raise revenue.

Required:

(a) State Five (5) differences between VAT and WHT. (10 Marks)

(b) List Five (5) services exempted from VAT in Nigeria. (2½ Marks)

(c) As an importer of goods into the country, list Five (5) taxes that will be charged by the Nigerian Customs before the goods can be released. (2½ Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 3

(a) The difference between VAT and WHT are:

- (i) VAT is an indirect tax, while WHT is a direct tax;
- (ii) VAT is imposed on goods and services, while WHT is imposed on income at source;
- (iii) VAT is backed by VAT Act 2004 as amended while WHT is backed by certain sections of CITA 2004 and PITA (amended) 2011;
- (iv) VAT is administered and collectable by the Federal Inland Revenue Service while WHT is administered and collected by both the Federal Inland Revenue Service and States Internal Revenue Service;
- (v) VAT rate is 5% while WHT rate is 5% or 10%; and
- (vi) VAT collected is shared by the three tiers of government while WHT is retained by the Federal government or State government according to what each has collected

(b) Services exempted from VAT are:

- (i) Medical Services;
- (ii) Services rendered by community Banks, peoples banks and mortgage institutions;
- (iii) Plays and performance conducted by educational institutions as part of learning;
- (iv) All exported services;
- (v) Stock exchange transactions; and
- (vi) Life insurance services.

(c) Taxes that will be collected by the Nigeria customs services (NCS) before imported goods are released are:

- (i) Customs duty;
- (ii) Surcharge;
- (iii) VAT;
- (iv) Comprehensive import supervision scheme (CISS); and
- (v) Trade liberalisation scheme levy on import duty.

EXAMINER'S REPORT

The question tests the differences between VAT and WHT, services exempted from VAT in Nigeria and taxes that will be charged by Nigerian Customs before goods can be released to importers. Few of the candidates attempted the question and performance was above average.

Candidates understood the requirements of this question and as such performed above average.

4. Section 55 of the Nigerian Customs Service Management Act, 2017 gives the President some power.

Required:

(a) State Three (3) areas covered by this power. (4½ Marks)

(b) List Five (5) conditions under which imports and exports can be subject to prohibition and restriction in Nigeria. (7½ Marks)

(c) List Two (2) objectives of the Nigerian Customs Establishment Act 2017. (3 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 4

a. The three areas covered by the power of the President, according to Section 55 of the Nigeria Customs Service Management Act 2017 are:

- (i) Prohibit the importation or exportation of any specified goods;

(ii) Prohibit the importation or exportation of all goods or any specified goods expect as provided in the order; and

(iii) Subject to any specified expectations, prohibit the importation or exportation of all goods except with the general or special permission in writing of a specified authority or authorities

b. Conditions under which imports and exports can be subject to prohibition and restrictions are:

(i) Public security, public morals and public policy;

(ii) Prevention or relieve of artificial shortages of food stuff;

(iii) The protection of the health and life of human, animals or plants;

(iv) The protection of the environments;

(v) The protection of national treasuries possessing artistic, historic or archaeological value;

(vi) The protection of industrial or commercial property including controls of drug precursors and goods infringing intellectual property rights;

(vii) Currencies;

(viii) Fishery conservation; and

(ix) Prohibition authorised by the World Trade Organization (WTO) agreements.

c. The objectives of the Nigeria Customs Establishment Act 2017 are:

(i) Bring discipline and prudence into the Nigeria Customs Services as a major revenue earning department of the Federal Government;

(ii) Use of Nigeria Customs Service to Strengthen its relationship with the border countries; and

(iii) Facilitate trade.

EXAMINER'S REPORT

The question tests candidates' understanding of Nigerian Custom Service Management Act, 2017. Candidates did not understand this question as such few of them attempted it, and performance was poor.

Candidates are advised to always prepare to cover all aspects of the syllabus for better performance in future examinations.

5. (a) Discuss Five (5) reasons why Customs need to value goods being brought into the country. (10 Marks)

(b) Mention Five (5) methods of Customs valuation. (5 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 5

(a) Reasons why customs need to value goods brought into the country

(i) So as to apply the ad valorem rates of customs duties properly;

(ii) To get money into the government purse – National Taxes;

(iii) A means of taxable basis for customs duties;

(iv) To compute trade statistics;

(v) To set preferences on tariffs;

(vi) Quality controls and valuation; and

(vii) To determine and regulate quality of goods coming.

(b) Methods of Customs valuation

(i) The Transaction method;

(ii) Transaction value of identical goods;

(iii) Transactions value of similar goods;
(iv) The deductive method;
(v) The computed method; and
(vi) The residual valuation provision on fall back or derivative method.

EXAMINER'S REPORT

The question tests candidates' knowledge of reasons for Customs valuation of goods and method of Customs valuation. The candidates understood the requirement of the question and as such they performed very well.

6. In accordance with Federal Government incentive policy, locating an industry in any Free Trade Zone automatically confers upon the investor certain privileges.

(a) What is a Free Trade Zone? (3 Marks)

(b) Mention Five (5) economic importance of creating a Free Trade Zone? (5 Marks)

(c) List Seven (7) Free Trade Zones in Nigeria. (7 Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 6

(a) A free trade zone is a designated area in which imported and exported goods are given a cover from taxes and levies of customs and governments, they are either taxed lightly or given a total tax coverage (i.e. free from taxes). The development of disadvantaged regions, attracting foreign direct investment and promoting technology transfer is the major reason for free trade zone.

It is an area within which goods may be landed, handled, manufactured and exported without the intervention of the custom authorities.

(b) Benefits of a Free Trade Zone are:
(i) Development of airport, seaport, dry seaport and international airport;
(ii) Generate revenue for the government;
(iii) Employment opportunities for citizens;
(iv) Skills acquisitions;
(v) Business incubation;
(vi) Technology transfer from investors especially foreign investors; and
(vii) Infrastructural development in the area of road networks.

(c) Some Free Trade Zones in Nigeria
(i) Oil Integrated Logistics Support Service (OILSS);
(ii) Calabar free trade zone;
(iii) Kano free trade zone;
(iv) Tinapa free zone resort;
(v) Snake Island International free zone;
(vi) Maigatari boarder free zone;
(vii) Ladol logistics free zone;
(viii) Airline Services export processing zone;
(ix) Alson Export processing zone (EPZ);
(x) Ogun Gucendong free trade zone;
(xi) Seborne farms export processing zone;
(xii) Lekki free zone;

(xiii) Ibom service and technology free zone;
(xiv) Lagos free trade zone;
(xv) Olokola free trade zone;
(xvi) Bank, barter free trade zone; and
(xvii) Brass LNG trade zone.

EXAMINER'S REPORT

The question tests candidates' knowledge of the meaning of free trade zone, economic importance of free trade zone and the locations of free trade zones in Nigeria. Candidates understood the question and as such they performed very well.

7. (a) Discuss the following commonly used terms as regards stamp duties.
   (i) Embossment.

   (ii) Denoting Stamp.

   (iii) Commissioner for Stamp Duty.

   (iv) Duty.

   (v) Execution. (7½ Marks)

(b) Differentiate between customs duties and excise duties? (2½ Marks)

(c) What is the meaning of ECOWAS Trade Liberalization Scheme (ETLS) and give three conditions for enjoying it? (5 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 7

(a) **(i)** **Embossment** – This is the process of fixing or stamping a die on an instrument.

(ii) **Denoting Stamp** – A stamp on an instrument used to transfer or assign another instrument which has been duly stamped ad valorem to another.

(iii) **Commissioner for Stamp Duty** – He is the administrative head of the stamp duty office. He is appointed within the service of the Federal Inland Revenue Service by the power of FIRS Act of 2007. Hitherto, this appointment was done by the management of the FIRS using the delegated power from the civil service commission. At the states level also, the State Internal Revenue Service do same as it is with the FIRS at the Federal level.

He assess, adjudicates instruments, collects duties, impose penalties, accounts for duties collected and takes custody of stamping instrument. He stands as in between the office and the tax duty payers. He sanitizes and educates duty payers.

(iv) **Duty** – This includes any stamp duty, chargeable under the Act or any other law and also includes any fee chargeable also. The total amount paid to stamp a document.

(v) **Execution** - In reference to the Stamp Duty Act means, with reference to the instrument means the instrument is signed or the instrument has the signature on it.

(b) Distinction between customs duties and excise duties

- **Customs duties** – These are tariffs or taxes imposed on goods, transported across international boundaries payment is made at the point of entry (for imports) or at the point of dispatch from the country for exports respectively.
- **Excise duty** – This is payable on goods or items manufactured or produced within the country and classified as chargeable.

Both taxes are collected through the Nigeria customs services established by the Customs and Excise Management Act (CEMA). Both are Federal Government taxes.

(c) ECOWAS Trade Liberation Scheme (ETLS) – This is the operational tool of the Economic Community of West African States for promoting the sub region of West Africa as a free trade area. ETLS established a common market for the liberation of trade by abolishing amongst member states, customs duties levied on imports and exports and abolition of tariffs or barriers. It was established in 1979 and covered agricultural goods, artisans, handcrafted products. It included industrial goods in 1990. This brought ECOWAS originating products – Rules of origin.

Rules for ECOWAS Trade Liberation Scheme – (ETLS)
(i) To promote economic integration in the region.
(ii) To encourage entrepreneurial development.
(iii) Increase inter regional trade.
(iv) Boost the economy of member states.
(v) Increase competitiveness globally.
(vi) Increase GDP of member states.
(vii) Better welfare for citizens.

Conditions for enjoying ECOWAS Trade Liberation Scheme – (ETLS)
(i) Goods must originate from ECOWAS member states.
(ii) Beneficiaries must be resident within the ECOWAS sub-region.
(iii) Goods value below $500 needs no documentation.
(iv) Goods must be accompanied by ECOWAS certificate of origin and ECOWAS export certificate declaration form.
(v) Goods must be subjected to the import clearance procedure and guidelines.
(vi) Goods must be part of the approved list of products.

EXAMINER'S REPORT

The question tests candidates' knowledge of terms in stamp duties, differences between Custom duties and excise duties, and ECOWAS Trade Liberazation Scheme (ETLS).
Few candidates attempted the question and performance was poor.
Candidates' commonest pitfall was lack of understanding of the questions.
Candidates are advised to always cover all aspects of the syllabus when preparing for the Institute's future examinations.